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SUBJECT: NEW DG AT MINISTRY OF FINANCE SEEKS COOPERATIVE  
DIALOGUE IN HIGH TECH FIELDS

Classified By: Ambassador James B. Cunningham; reasons 1.5 b/d.

¶1. (SBU) Summary: Ambassador Cunningham met with Haim Shani, the new Director General of the Ministry of Finance on November 13. Shani, who took charge on November 1, shared some of his priorities as DG. He also provided a few details of his vision of the joint high-tech dialogue he hopes to initiate with discussions at the Joint Economic Development Group (JEDG) mid-year review in December. Shani focused on sectors that he believes are priority areas for both the U.S. and Israel, such as health care, education, alternative energy, and regulation of financial services. Acknowledging the strong U.S. interest in supporting the full integration of the Arab sector in Israeli society and economy, Shani explained that he would like to explore linking this high-tech dialogue with his priority of increasing the labor participation of the Arab sector. Ambassador Cunningham described the strong USG interest in strengthening the economy of the PA, and queried the new DG and his chief of staff about the Finance Ministry's involvement in delaying the November clearance revenues transfer to the PA as well as its alleged opposition to providing additional permits to Palestinians to work in Israel's construction sector. End Summary.

DG HAIM SHANI: EXPERIENCED ENTREPRENEUR, FIRST-TIME BUREAUCRAT

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¶2. (SBU) Prior to his appointment as DG, Shani served as CEO of NICE Systems for 8 years. NICE, an international leader in business solutions that analyze multimedia content and transactional data, is active in financial services, health care, retail, homeland security, and call centers. Shani came to NICE from Applied Materials, where he served as Vice President for two years in the Palo Alto subsidiary of the Israeli company. Prior to that he served in several positions at Orbotech, Ltd including Corporate VP of Marketing and Business Development, President of Orbotech's subsidiary in the Asia-Pacific region based in Hong Kong, and President of Orbotech Europe, based in Brussels. With a rich and varied 30-year background in business, primarily in the high-tech arena, Shani told Ambassador Cunningham that the belief that he could offer unique insights and solutions enticed him to answer the call to public service.

¶3. (SBU) Responding to the Ambassador's query on Shani's priorities in his new position, the DG noted the overall strength of the Israeli economy on a macro level despite the recent economic crisis. From a strategic point of view, he said, GDP per capita needs to grow and the government must endeavor to understand and support the driving forces of this growth. He underscored his concern about the uneven distribution of wealth in Israel, especially when there is significant growth. He pointed to the two sectors of the population where the government seeks greater labor participation -- the Arab sector and the ultra-Orthodox.

Highlighting the growing population of ultra-Orthodox Jews, he said many initiatives are being discussed but implementation remains uncertain. With the Arab sector, Shani said things can improve dramatically as the economic situation of Israel's Palestinian neighbors improve. Particular to his business background of implementing technology to bring about efficiencies, Shani underscored the problems of government bureaucracy and impediments to doing business as areas he plans to target. NICE Systems, he noted, has delivered systems to government clients such as the tax authority in Australia, that could be instructive for Israel.

#### MAINTAINING ISRAEL'S HIGH-TECH EDGE

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¶4. (SBU) Characterizing the development of Israel's high-tech sector as half miracle and half hard work, Shani said that the sector accounts for 15-20 percent of Israel's GDP and 40 percent of its exports. Assuring the continuation of this miracle is a priority that also brings the opportunity of greater dialogue between the U.S. and Israel. Shani highlighted the R&D centers of various U.S. high-tech companies resident in Israel (Intel, Microsoft, IBM, Cisco) as well as the importance of large U.S. pension funds to the many high-tech Israeli companies listed on the U.S. stock exchanges. From his time in Palo Alto with Applied Materials, Shani said he understood the benefits of this cross-fertilization on a micro level and feels that there could be a multiplier effect with broad cooperation initiated and supported by the two governments.

¶5. (SBU) Ambassador Cunningham noted the high degree of cooperation already existent between the U.S. and Israel in scientific and agricultural research and development, and invited Shani to detail his concept. Noting that he as yet had no holistic plan, Shani responded that his concept centers on finding win/win areas for both countries. His survey of colleagues that do business in the U.S. yielded several sectors where applying high-tech solutions is high on the agenda of both countries: 1) innovative health care information technology; 2) bringing our education systems to a high level to compete effectively with the new giants of China and India; 3) managing integrated systems that employ alternative energy; 4) creating a new regulatory environment for financial services where technology can significantly enlarge what regulation can accomplish; and 5) the homeland security area. The Ambassador agreed that there was strong U.S. interest in these areas and challenged Shani to describe in greater detail at the JEDG mid-term review in December the path where government can help without interfering with the creative and business processes that define success in these areas.

#### TARGETING THE ARAB COMMUNITY

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¶6. (SBU) DG Shani told the Ambassador that if even one of the sectors he mentioned could host a particular incentive for the Arab community in Israel, we would indeed have a win/win situation. He said that he was aware of some initiatives specifically focused on encouraging the Arab community to move into high-tech fields. The Ambassador described the Embassy's interest in encouraging the integration of the Arab communities into the fabric of Israeli life, and our focus on educational and cultural themes. Noting the importance of the success of this integration to the future of the Israeli state, the Ambassador said health care may be a good starting point, as the interest and infrastructure already exist in the Arab community. Adding the high-tech element and increasing employment opportunities would be the key, he said.

#### MoF SUPPORTING THE PA?

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¶7. (C) The Ambassador described the broader USG goal of

building a strong economy for a future Palestinian state; DG Shani agreed that this is indeed a shared goal that is having some success. Ambassador Cunningham said that ideally political issues should have no place in the routine process of transferring clearance revenues to the PA as outlined in the Paris Protocols. The apparently political motivations that resulted in a delay of the transfer at the beginning of November was in no one's interest, he said. Shani replied that normally the mechanics of this process work very well, and referred to his Chief of Staff, Michal Finklestein, to address the difficulties in November. Finklestein noted that there actually was no delay and Prime Minister Fayyad was able to pay salaries on November 5th as expected. November deviated from previous months only in that Minister Steinitz sought the input of the Prime Minister before authorizing the transfer. Finklestein conducts these negotiations monthly with the PA and characterizes the dialogue as cooperative and professional. She said that the GoI is aware of the pressures the PA faces and attempts to ameliorate the situation. The GoI continues to train PA customs officials, and expects to respond favorably to the PA's recent request to move up the revenue transfer for December to the third week of November due to the upcoming Eid al Adha holiday.

18. (C) The Ambassador also raised the issue of additional work permits for Palestinians in the construction sector, noting our understanding that the Ministry of Finance was the sole dissenter in the GoI, blocking the issuance of 4000 additional work permits. While confessing to have no knowledge of this particular issue, Finkelstein said this is normally a committee decision involving COGAT, and the Ministries of Defense, Finance, and Interior. From the Finance Ministry's perspective, labor market issues were significant, especially given the current negative focus on foreign labor. The Ambassador noted his understanding that the Histadrut (umbrella labor organization) does not believe that these permits would take jobs from Israelis, and asked if Palestinian labor would not be preferable to foreign labor from outside the region from the GoI's perspective. DG Shani agreed that improved job opportunities for Palestinians that is in line with the GoI's security concerns and labor market realities is a benefit for both the PA and Israel. Finkelstein offered to follow up on this particular case.

19. (C) Comment: Shani's drive to leverage his business

acumen to bring about meaningful efficiencies for the Israeli economy promises innovative starts, if not assured success. He clearly sees the U.S. as a partner across the board and has studied his U.S. brief, seeking mutually beneficial platforms from which to launch his vision of a high-tech dialogue. We will continue to encourage the Ministry to develop the vision and present as clear a picture as possible at the JEDG mid-term review in December, preferably via a document that can be shared through an interagency process. While it remains unclear that the JEDG is the ideal vehicle for this dialogue, Post agrees the proposal merits close examination and a follow-up response at the next JEDG meeting in summer 2010. Regarding MoF's involvement in GoI efforts to advance the Palestinian economy, we will follow up on the issue of work permits and encourage more dialogue.

CUNNINGHAM